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UNITED NATIONS POPULATION FUND

REVISION OF FINANCIAL REGULATIONS

Report of the Executive Director

1. The financial regulations of UNFPA were adopted by the Governing Council at its thirtieth session, as contained in section III, paragraph 3 of decision 83/17 of 24 June 1983. The regulations were subsequently amended by Governing Council decisions 84/21, 90/36, 92/33 and 93/29 and by Executive Board decisions 97/7, 98/21, 2000/5 and 2001/6. The Executive Director hereby submits to the Executive Board for its approval, revisions to existing regulations as well as proposed new regulations.

2. The revisions are the result of a review of UNFPA financial regulations, necessitated by the introduction of the PeopleSoft financial system (known as Atlas) in January 2004. The redesign of the financial control systems of UNFPA required changes in its financial regulations. The revisions also reflect the introduction of the multi-year funding framework (MYFF) as well as United Nations simplification and harmonization initiatives. Where possible, UNFPA has harmonized the proposed revisions with UNDP. The United Nations Office of Legal Affairs (OLA) approved the proposed revisions, which the Advisory Committee on Administrative and Budgetary Questions (ACABQ) also reviewed. The ACABQ comments will be contained in document DP/FPA/2005/4.

Atlas-induced changes

3. The new Atlas control framework has replaced the existing UNFPA control framework of certifying and approving officers, which focused on the disbursement of funds. Atlas segregates expenditure control into three distinct sequential processes: pre-encumbrance, encumbrance and disbursement. The former *certifying* function has been replaced by the *committing* function, which establishes the approval to spend against a budget source. The former *approving* function has been replaced by the *verifying* function, which

ensures that all proper controls are in place before funds are disbursed. The new control framework pays equal attention to authority to spend, obligate and disburse funds.

4. In accordance with the best practices embedded in Atlas, UNFPA proposes to replace the allocation concept with the budget concept. In previous UNFPA systems, project allocations constituted the level of authorized spending levels. In Atlas, the authority to expend funds is given when a budget is approved. For the non-finance user, the term *budget* also provides more clarity for the financial control process.

5. UNFPA also proposes new regulations to permit electronic signatures and electronic approvals and authorizations in lieu of signed paper copies.

United Nations simplification and harmonization initiatives

6. With the introduction of the United Nations Development Assistance Framework (UNDAF) and the country programme action plan (CPAP), the old concept of a project in a country programme has been replaced with an annual work plan. These processes also differentiate between the government entity that coordinates the framework of development assistance (known as the *executing agency*) and any individual partner organization that implements the development activities (known as the *implementing partner*). The proposed revisions reflect this new implementation concept. They also allow for the application of the new UNDAF requirements while providing for traditional project delivery in countries not yet on the UNDAF cycle.

7. The definition of *project* has been expanded to include activities undertaken within a CPAP framework as well as individual projects as presently defined.

Financing of donor agreements

8. The current regulations stipulate that programme activities may only take place if funds have been received from the donor. However, in some cases, there may be a residual amount of funds that are remitted after completion of the project or activity. To resolve this dilemma and to improve the ability of UNFPA to maximize programme delivery, UNFPA proposes to expand the definition of *fully funded* to allow implementation based on a signed agreement as well. The proposed revision in regulation 2.2 F (i) would permit, in well-defined circumstances, contributions based on a signed pledge to be utilized before cash is received.

Revised role of the Executive Director

9. The existing UNFPA rules and regulations contain provisions that date from the time when UNFPA relied on UNDP for managerial oversight as well as financial and personnel services. These provisions have become impractical now that formal authority in UNFPA personnel matters has been delegated to the Executive Director and UNFPA maintains its own accounts in Atlas. With the agreement of UNDP and OLA, it is proposed that references to the UNDP Administrator be removed.

Multi-year funding framework

10. The existing financial rules and regulations contain references to the UNFPA annual work plan as the authority to spend. In decisions 99/5 and 2000/9, and subsequent amendments, the Executive Board replaced the UNFPA work plan with the MYFF. The MYFF is now the document by which the Executive Board authorizes UNFPA to receive and expend funds. To reflect this change, the proposed revisions replace the work plan and its requirements with the MYFF and an equivalent set of reporting requirements.

Editing and streamlining

11. The proposed revisions also provide greater clarity and precision. Redundancies have been eliminated and changes have been made that make the financial regulations more transparent and readable.

12. The proposed revisions to the financial regulations are detailed below. For ease of reference, revisions and additions to the text are shown in bold typeface and deletions are shown with a line through the text to be deleted.

Recommendation

13. The Executive Board may wish to take note of the present report (DP/FPA/2005/3) and approve the revisions to the financial regulations contained therein.

Regulation 1.3: These regulations shall become effective on ~~1 January 1984~~ 1 March 2005.

Regulation 2.1: For the purposes of the financial regulations of UNFPA, the following definitions of the main entities involved in activities of UNFPA shall apply:

(j) "Host" Government shall mean the Government, as defined, of a country within whose legal boundaries UNFPA provides a programme of assistance.

~~"executing agency" shall mean an entity to which the Executive Director has entrusted the overall management of UNFPA assistance to a project or part of a project (reference Regulation 2.2P(v)), along with the assumption of responsibility and accountability for the effective use of UNFPA resources and the delivery of outputs, and shall include the following:~~

~~*(i)* a recipient Government or Governments;~~

~~*(ii)* organizations of the United Nations system, i.e., the United Nations, the specialized agencies, the International Atomic Energy Agency and other organizations that are or become part of the United Nations system;~~

~~*(iii)* a governmental or intergovernmental institution or agency not part of the United Nations system;~~

~~*(iv)* UNFPA itself;~~

~~*(v)* a non-governmental organization.~~

(k) "executing agency" (also referred to as "executing entity") shall mean:

(i) for UNFPA project activities not carried out under the harmonized operational modalities established in response to General Assembly resolution 56/201, the entity responsible for the overall management of UNFPA assistance for a project or a part of a project along with the assumption of full responsibility and accountability for the effective use of UNFPA resources and the delivery of outputs, and shall include the following: (a) a recipient Government or Governments; (b) organizations of the United Nations system, i.e., the United Nations, the specialized agencies, the International Atomic Energy Agency and other organizations that are or become part of the United Nations system; (c) a governmental or intergovernmental institution or agency not part of the United Nations system; (d) UNFPA itself; and (e) a non-governmental organization.

(ii) for UNFPA project activities carried out under the harmonized operational modalities established in response to General Assembly resolution 56/201, the entity that assumes the overall ownership of and responsibility for UNFPA project activities and the acceptance of accountability for results shall normally be the recipient Government but can also include UNFPA.

~~"implementing agency", if other than the executing agency, shall mean an entity engaged by and accountable to the executing agency to provide programme/project inputs and deliver programme/project outputs.~~

(l) **"implementing partner" (also referred to as "implementing agency") shall mean, for UNFPA project activities carried out under the harmonized operational modalities established in response to General Assembly resolution 56/201, the entity to which the Executive Director has entrusted the implementation of UNFPA assistance specified in a signed document, along with the assumption of full responsibility and accountability for the effective use of UNFPA resources and the delivery of outputs as set forth in such document.**

Regulation 2.2: For the purposes of the financial regulations of UNFPA, the following definitions in respect of specific terms used shall apply, in alphabetical order.

A

(i) "administrative and operational support costs" shall mean the expenses reimbursed ~~to an executing agency~~ as a result of its the administration of programme activities financed from UNFPA funds;

~~(ii) "allocation" shall mean a financial authorization issued by the Executive Director to an executing agency empowering it to incur commitments and to make expenditures for specific purposes related to UNFPA programme activities and within specified limits, during a definite period;~~

(ii) "allotment" shall mean a financial authorization issued by the Executive Director to incur ~~obligations~~ **expenditures** for specific purposes related to the biennial support budget and within specified limits, during a definite period;

B

(i) biennial support budget" shall ~~mean~~ cover the budget ~~covering~~ over a period of two calendar years ~~to cover~~ for the costs of Pprogramme support and Mmanagement and administration services of UNFPA;

(ii)"budget" shall mean a financial authorization issued by the Executive Director to incur commitments and to make expenditures for specific purposes related to UNFPA activities and within specified limits, during a definite period.

C

(i) "commitment" shall mean an engagement involving a liability against the resources of one or more future years entered into by the Executive Director or by an executing agency **or, under the harmonized operational modalities, implementing partner,** within the ~~allocations~~ **budgets** issued to it;

(ii) "contribution" shall mean cash or in-kind resources received from a Government or intergovernmental institution; United Nations agencies; or non-governmental sources, including foundations, ~~or~~ private sector organizations, ~~as well as~~ **and** individuals. Contributions cover programme costs as well as programme support and management and administration costs.

(iii) "cost sharing" shall mean an arrangement by which the costs of projects that are normally

charged to UNFPA regular resources, including the reimbursement of ~~the related administrative and operational service costs~~ **indirect costs paid to executing agencies**, are covered in full or in part by a contribution or contributions from the recipient Government, or from one or more Governments other than the recipient Government, or from an organization or organizations of the United Nations system, or from intergovernmental institutions or agencies not part of the United Nations system. Such arrangement may be made on the following basis:

- Project cost sharing whereby the contribution relates to a specific project;

- Programme cost sharing whereby the contribution relates not to a specific project but to all or several projects in a recipient country or region; and

- Third party cost sharing, which can be either project or programme cost sharing, whereby the contribution is paid by one or more entities other than the recipient Government.

(iv) "country programme" shall mean the programme of UNFPA ~~technical~~ assistance in a particular country, prepared by the Government of that country **in line with the UNDAF, if any**, in collaboration with UNFPA, indicating the proposed use of UNFPA resources towards the achievement or furtherance of ~~selected~~ national ~~reproductive health and population~~ goals **in line with the UNFPA mandate** during the period covered by the country programme.

(v) "country programme action plan" (CPAP) shall mean the management plan for the UNFPA country programme. It is signed with the recipient Government and contains information on the implementation of the country programme and the commitments of both parties.

F

(i) "fully funded" shall mean that funds in support of a project~~/programme~~ are available in the form of cash ~~on hand~~ **received** ~~or~~ an irrevocable letter of credit ~~prior to authorization of commitments through allocation of funds~~**, or, subject to guidelines established by the Executive Director, an agreement signed by UNFPA and the donor;**

(ii) "funds administered by UNFPA" shall include funds in the UNFPA Account, ~~and funds of Trust Funds~~ **co-financing funds and other funds** established by the Executive Board or the Executive Director.

I

~~(i)"implementation" shall mean the procurement and delivery of programme/project inputs and their conversion into programme/project outputs.~~

(i) "implementation" shall mean:

(a) for UNFPA project activities not carried out under the harmonized operational modalities established in response to General Assembly resolution 56/201, the procurement and delivery of UNFPA project activity inputs and their use in producing outputs;

(b) for UNFPA project activities carried out under the harmonized operational modalities established in response to General Assembly resolution 56/201, the overall management

and delivery of project activities to achieve specified results, including the procurement and delivery of UNFPA project activity inputs and their use in producing outputs.

(iii) "indirect costs" shall mean the expenses incurred as a result of the management and administration of programme activities and funds.

M

(i) "management and administration" ~~of UNFPA~~ shall mean the activities of the organizational units whose primary function is the maintenance of the identity, direction and well-being of UNFPA. This would include the units that carry out the functions of executive direction, organizational policy and evaluation, external relations, information and administration.

(iii) "multi-year funding framework" (MYFF) shall mean an integrated four-year financial plan for the planning and management of total resources and by which the Executive Board authorizes the use of funds.

O

(i) "obligation" shall mean an engagement, **such as a contract, agreement or undertaking that has been entered into,** involving a liability against the resources of the current year in respect of a programme activity, or of the current biennium in respect of the biennial support budget.

P

(v) "project" shall mean a separately identified undertaking relating to ~~population matters~~ assisted by UNFPA **in accordance with its mandate** that forms part of a ~~sub-programme and or programme.~~ **country or intercountry programme,** ~~References to a "project" throughout these regulations and rules shall mean a component project~~ unless it is a stand-alone project;

(vi) "project document" shall mean the formal document, including revisions thereof, covering the agreed arrangements for the implementation of **the a** project. **It shall also include other instruments as the parties may conclude to define the particulars of such assistance and the respective responsibilities of the parties in more detail in regard to such projects.**

R

(i) "regular resources" shall mean resources available to UNFPA that are commingled and untied. These shall include pledges of voluntary contributions, other governmental or intergovernmental payments to UNFPA, other contributions from non-governmental sources, **including foundations, private-sector organizations and individuals, related** interest earnings and miscellaneous income.

U

(i) "United Nations Development Assistance Framework"(UNDAF) shall mean the common strategic framework for the operational activities of the United Nations system at the country level;

V

(i) "voluntary contributions" shall mean annual contributions to UNFPA from Governments

of States Members of the United Nations, of the specialized agencies or of the International Atomic Energy Agency, or from non-governmental sources, including foundations, private-sector organizations and individuals.

W

(i) "written" or "writing" shall mean a duly signed paper document or a document in electronic/digital form that can be authenticated as being produced by an authorized individual.

CHAPTER D - FUNDS
ARTICLE IV - UNFPA FUNDS

Voluntary contributions

Regulation 4.1: Contributions may be accepted by UNFPA from Governments of States Members of the United Nations, of the specialized agencies and of the International Atomic Energy Agency as well as from those organizations and agencies themselves. Other contributions ~~including those~~ from intergovernmental **or** non-governmental ~~or private sector~~ sources, **including foundations, private-sector organizations and individuals,** may be accepted by UNFPA and utilized for the general support of UNFPA or for purposes consistent with those of UNFPA.

Regulation 4.4: Voluntary contributions shall be made without limitation as to use ~~by a specific executing agency, in a specific recipient country or region, or for a specific project.~~ No contributing Government shall receive special treatment with respect to its voluntary contributions, nor shall negotiation for the use of currencies contributed to UNFPA take place between contributing and recipient Governments.

Regulation 4.8: Host-government contributions to the costs of UNFPA country offices.

(a) The Executive Director shall arrange for the collection from host Governments of their contributions in cash and/or in kind towards the costs of UNFPA country offices, in accordance with the agreements between the Executive Director and the host Governments concerned, where they exist. Negotiations with respect to the amount and/or form of such contributions shall be in accordance with relevant Executive Board decisions and take into consideration the economic conditions of the countries concerned and may result in the granting by the Executive Director of a partial waiver of contributions.

(b) Contributions in cash towards the costs of UNFPA country offices shall be credited to the biennial support budget of UNFPA.

Other contributions

Regulation 4.10: Where the purpose of a contribution as described in Regulation 4.1 is the general support of UNFPA and no limitations are imposed by the donor as to its use, the resources received shall be credited to the UNFPA Account, as defined in Regulation 2.2 U~~(i)~~ **(ii)**. Other contributions proposed for specific purposes shall be treated under the provisions for cost-sharing in Article IV or Trust Funds in Article V.

Regulation 4.11: The Executive Director shall report annually to the Executive Board on individual contributions received from intergovernmental **or** non-governmental ~~or private sector~~

sources, **including foundations, private-sector organizations and individuals,** subject to such limits as the Executive Board may specifically decide.

Regulation 4.13: Cost-sharing agreements and contributions **thereunder there under** shall be subject to the following conditions:

(a) contributions would be denominated for accounting purposes in United States dollars; however, UNFPA would accept payment in the local currency of a recipient Government to the extent that such currency could be used to meet project expenditure requirements;

(b) contributions would be paid pursuant to a written agreement made between the contributor and UNFPA. Such agreement would specify that the contributions should be **paid fully funded** in advance of the implementation of planned activities. All third-party contributions would be accepted subject to the agreement of the recipient Government.

~~(c) In case of default in making the payments required under sub-paragraph (b) above, UNFPA would be under no obligation to provide funds from its regular programmable resources for any of the activities planned under cost-sharing agreements.~~

(c) the Executive Director shall require reimbursement of indirect costs up to the rates authorized by the Executive Board.

Miscellaneous income

Regulation 4.14: All income to UNFPA shall be classified as miscellaneous income, except:

(a) the income from the items specified in Regulations 4.1 through 4.123;
(b) interest income;
(c) direct refunds of expenditures in respect of projects during the approved duration of a project, i.e., before the final allocation for UNFPA assistance to a project is made;
(d) direct refunds of expenditures in respect of the biennial support budget during the current biennium;
(e) advances or deposits to Trust Funds;
(f) revenue derived from the Staff Assessment Plan; and
(g) amounts otherwise designated to be credited to the biennial support budget, including, inter alia, income derived from ~~UNFPA support costs~~ **recovery of indirect costs** and net income relating to procurement services provided to third parties.

Regulation 4.15: Miscellaneous income shall be credited to the UNFPA Account, as defined in Regulation 2.2 U~~(i)~~ **(ii)**, or to other funds administered by UNFPA to which the income accrued or from which it was derived.

Regulation 5.5: The Executive Director shall require reimbursement of ~~managerial and support services costs~~ **indirect costs associated with the management and administration of Trust Funds** up to the ~~amount~~ **rates** authorized by the Executive Board.

CHAPTER E – FINANCIAL PERIODS
ARTICLE VI – FINANCIAL PERIODS

Planning period

Regulation 6.1: **The planning period, F**for the purposes set forth in Article VII, **shall be defined in the multi-year funding framework.** ~~UNFPA shall have a planning period consisting of four consecutive calendar years, the first of which shall be the year following the current year. The plan covering the planning period shall be known as the UNFPA Work Plan as defined in Regulation 7.2.~~

Regulation 6.2: To provide for continuity in the planning, programming and implementation of UNFPA assistance to projects, the financial period for the purpose of the proposed utilization of resources ~~and of the entering into commitments in respect of programme activities, as defined in 2.2 P(iii),~~ shall be the duration of each project as specified in the project document.

Regulation 6.3: The financial period for the purpose of incurring and accounting for expenditures in respect of programme activities, including reimbursement of related ~~agency support costs~~ **indirect costs,** shall consist of a single calendar year.

CHAPTER F – PROPOSED UTILIZATION OF RESOURCES
ARTICLE VII - GENERAL FRAMEWORK

Regulation 7.1: The Executive Director shall submit to the Executive Board for its approval ~~at its first session following the coming into effect of these Regulations, and annually thereafter, a UNFPA Work Plan,~~ **a multi-year funding framework** for the utilization of its expected resources during the forthcoming planning period. ~~Each subsequent Work Plan shall contain such revisions of the plan as the Executive Director deems necessary. The Executive Board shall consider annually and approve the Work Plan with such amendments as it deems necessary.~~

Regulation 7.2: The ~~UNFPA Work Plan~~ **multi-year funding framework** shall set forth the ~~objectives, programmes~~ **goals, outcomes** and projected financial requirements of UNFPA, together with full information as to the main directions of policy which UNFPA intends to pursue throughout the planning period. It shall include a multi-year estimate of resources **and** programme costs ~~and programme activities sub-divided into appropriate functional and geographical categories.~~

Regulation 7.3: Subject only to the maintenance on a continuous basis of the ~~Operational R~~reserves set forth under Article XII, all resources available to UNFPA after provision has been made for the biennial support budget shall be available to the maximum extent possible for programme activities~~, including reimbursement of related agency support costs.~~

Regulation 7.4: In allocating the ~~net~~ resources available for programme activities as described in Regulation 7.3, the Executive Director shall be guided by the ~~UNFPA Work Plan~~ **multi-year funding framework** as approved by the Executive Board.

ARTICLE VIII – PROGRAMME ACTIVITIES

UNFPA assistance to projects

Regulation 8.1: Consistent with the ~~objectives~~ **goals** set forth in the ~~UNFPA Work Plan~~ **multi-**

year funding framework as approved by the Executive Board, the Executive Director shall plan for the delivery of UNFPA assistance ~~to projects at rates expected~~ **in order** to achieve the ~~approved levels~~ **goals set out** in the ~~UNFPA Work Plan~~ **multi-year funding framework,** subject to resources reasonably expected to be available.

Regulation 8.4: Agreements shall be entered into between ~~United Nations Population Fund~~ **UNFPA** and executing agencies **or, under the harmonized operational modalities, implementing partners** ~~which are organizations of the United Nations system,~~ specifying the general terms and conditions which are to govern ~~the United Nations Population Fund's~~ **UNFPA** assistance to projects ~~for which those organizations have been designated as executing agencies.~~

Regulation 8.5: Arrangements for the establishment and financing of a project shall be subject to the written agreement of the requesting party(s) and UNFPA. Arrangements for project implementation shall be subject to the written agreement of the requesting party(s), the executing agency **or, under the harmonized operational modalities, the implementing partner,** where appropriate, and UNFPA. Details of such arrangements shall be specified in the project document which shall also contain such provisions of a general nature as may be deemed necessary to ensure the satisfactory implementation of the project.

Regulation 8.6: Consistent with the overall management responsibility of Governments for their projects, the Executive Director shall consult the requesting Government or Governments concerning the implementation of UNFPA assistance to a project. In keeping with the principle of national capacity building, recipient Governments or national non-governmental organizations must be given first consideration in the selection ~~of an executing agency~~ **as an executing agency or, under the harmonized operational modalities, implementing partner.** Such selection shall be subject to the agreement of the requesting Government or Governments.

Regulation 8.7: Under conditions established by the Executive Board, the Executive Director is also authorized, subject to the agreement of the requesting Government(s), to appoint as executing agency an entity other than the recipient Government(s) and as defined in regulation 2.1~~(j)~~**(k).** The Executive Director may also contract for services of other agencies, private firms or individual experts in the implementation of UNFPA-funded projects.

Regulation 8.8: The Executive Director may reimburse executing **agencies or, under the harmonized operational modalities, implementing partners,** as defined in regulations 2.1**(j)(k) and (l)** for their ~~support costs~~ **indirect costs** up to levels determined by the Executive Board. ~~Income earned by UNFPA through the recovery of support costs shall be credited to the biennial support budget.~~

Regulation 8.9: The net recovery of indirect costs shall be credited to the biennial support budget.

Regulation 8.10: Approval of UNFPA assistance to a project becomes effective upon signature of the project document by the Government or Governments and UNFPA and, where appropriate, by an executing **agency or, under the harmonized operational modalities, implementing partner,** or other party selected under regulation ~~8.6~~ **8.7** above.

~~Regulation 8.9: Agreements shall be entered into between United Nations Population Fund and executing agencies which are organizations of the United Nations system, specifying the general terms and conditions which are to govern the United Nations Population Fund's assistance to~~

~~projects for which those organizations have been designated as executing agencies.~~ **(modified and moved; now regulation 8.4)**

Article IX – BIENNIAL SUPPORT BUDGET

Proposed biennial support budget

Regulation 9.1: The biennial support budget as defined in regulation 2.2 B(i) shall be prepared by the Executive Director and shall be ~~related~~ **linked** to the ~~Work Plan~~ **multi-year funding framework submitted** for the current planning period.

Form of the proposed biennial support budget

Regulation 9.7: The proposed biennial support budget shall be prepared in accordance with the guidelines ~~contained in document DP/1997/2, "Harmonization of Budgets: UNDP, UNFPA and UNICEF" and any revisions thereto~~ **approved by the Executive Board,** and shall be accompanied by such information annexes and explanatory statements as may be requested by the Executive Board or as the Executive Director may deem necessary and useful.

Regulation 9.8: Subsequent to a session of the Executive Board in the second year of a biennium, the Executive Director may utilize a budgetary contingency provision of up to three per cent (3%) of the approved gross appropriation for unforeseen requirements resulting from currency movements, inflation or decisions of the General Assembly. Such usage shall be reported to the Executive Board at its next regular session through the Advisory Committee.

CHAPTER G – APPROVED UTILIZATION OF RESOURCES

ARTICLE X – ~~ALLOCATIONS~~ **BUDGETS** FOR PROGRAMME ACTIVITIES

Regulation 10.1: The project budget concerning UNFPA assistance to a project, as contained in an approved project document, shall constitute the allocation of funds by the Executive Director to the executing agency **or, under the harmonized operational modalities, implementing partner,** to implement UNFPA assistance to the project. For the purposes of regulation 10.2 below, the project budget shall be presented in annual segments.

Regulation 10.2: ~~An allocation~~ **Budgets issued** by the Executive Director which authorizes the incurring of expenditures and the entering into of commitments, shall constitute a ceiling on expenditures for the current year and on commitments for future years in connection with UNFPA assistance to the project for which the ~~allocation was made~~ **budget was given.**

Regulation 10.3: ~~An allocation~~ **Budgets** shall be available for expenditure and for commitment for the duration of the project to which ~~it~~ **they** relates. Following project completion, ~~the project budget shall be revised to reflect actual expenditure incurred and shall constitute the final allocation for UNFPA's assistance to the project. T~~the balance of the ~~allocation~~ **unspent funds** shall revert to the UNFPA Account.

Regulation 10.4: Within the limit of the total annual estimated programme expenditure, the Executive Director shall be authorized to incur expenditures above or below the individual annual estimates made for each project in accordance with the actual progress and requirements of such projects.

Regulation 10.5: The final ~~allocation~~ **budget** for UNFPA assistance to a project made under the

provisions of regulation 10.3 above shall remain available for the period of time required to discharge any outstanding legal obligation of the project. When all legal obligations against the ~~final allocation~~ **budget** have been discharged, any balance **of funds advanced** shall ~~revert to the UNFPA Account and shall be classed as miscellaneous income~~ **be reimbursed to UNFPA.**

Regulation 11.5: Transfers between the appropriation lines for the biennium may be made by the Executive Director ~~with the concurrence of the Advisory Committee~~, subject to such limits as the Executive Board may specifically decide **with the concurrence of the Advisory Committee.**

CHAPTER H - ADMINISTRATION OF RESOURCES
ARTICLE XII - THE UNFPA ACCOUNT

Regulation 12.2: Within the UNFPA Account, the following reserves shall be established at levels set by the Executive Board:

(a) an operational reserve, the purpose of which is to guarantee the financial viability and integrity of UNFPA. The reserve shall be fully funded and held in irrevocable and promptly available liquid assets. The elements to be compensated for and covered by it shall be limited to:

(i) downward fluctuations or shortfalls in resources;
(ii) uneven cash flows;
(iii) increases in actual costs as compared to planning estimates or fluctuations in delivery; and
(iv) other contingencies, which result in a loss of resources for which UNFPA has made commitments for programming.

The decision to make a drawdown from the operational reserve shall rest solely with the Executive Director, who will report all drawdowns to the Executive Board at its next regular session, and in between sessions, to members of the Executive Board as may be prescribed by the Board or whenever the situation in the Executive Director's opinion so merits;

(b) A fully funded reserve for field accommodation for housing for internationally recruited, UNFPA-financed field personnel and for office accommodation;

(c) Such other reserves as may be approved by the Board.

Regulation 13.4: The Executive Director and the executing agencies **or, under the harmonized operational modalities, implementing partners,** shall endeavour, consistent with the need for efficiency and economy of operations, to make the fullest possible use of all available currencies in the UNFPA Account.

ARTICLE XIV - INTERNAL CONTROL

Regulation 14.1: The Executive Director shall:

(a) establish detailed financial rules and procedures in order to ensure effective financial administration and the exercise of economy, and circulate the Financial Rules to members of the Executive Board for information at least 30 days before they become effective;

(b) cause all payments to be made on the basis of supporting vouchers and other documents which ensure that the services or goods have been received, and that payments have not previously been

made;

(c) designate the officers who may receive moneys~~, incur obligations or commitments and make payments~~ on behalf of UNFPA;

(d) maintain an internal financial control which shall provide for an effective current examination and review of financial transactions in order to ensure:

(i) the regularity of the receipt, custody and disposal of all funds and other financial resources of UNFPA;
(ii) the conformity of expenditures and commitments with the ~~allocations~~ **budgets,** appropriations or other financial provisions decided upon by the Executive Board;
(iii) the economic use of the resources of UNFPA.

Regulation 14.2: Unless otherwise expressly authorized by the Executive Director, there shall be a separation of duties:

(a) between the staff who may incur obligations or commitments on behalf of UNFPA and the staff who may verify that payments may be made on behalf of UNFPA; and

(b) between the staff who may verify that payments may be made on behalf of UNFPA and the staff who may disburse resources on behalf of UNFPA.

Regulation 14.3: The Executive Director shall:

(a) (i) designate the staff who may make financial commitments on behalf of UNFPA;
(ii) cause all financial commitments to be made on the basis of supporting documents which ensure that funds are available to cover the anticipated claim; and
(iii) ensure that all financial commitment decisions are within the UNFPA mandate and provide best value for money to the organization.

(b) (i) designate the staff who may verify that payments may be made on behalf of UNFPA; and
(ii) cause all payments to be made on the basis of supporting vouchers and other documents, which ensure that the services or goods have been received and that payments have not previously been made.

Regulation 14.4: Expenditures for the current year and commitments for future years shall be incurred only after ~~allocations~~ **budgets** for programme activities, allotments in respect of the biennial support budget or other appropriate authorizations have been made in writing under the authority of the Executive Director.

Regulation 14.5: The Executive Director, may make such ex gratia payments not exceeding $25,000 as he/she deems to be necessary in the interest of UNFPA, provided that a statement of such payments shall be submitted to the General Assembly and the Executive Board with the accounts. ~~The Executive Director and the Administrator shall jointly consult with a view to ensuring the uniform application of this Regulation in any case involving an ex gratia payment to a staff member.~~

Regulation 14.12: Notwithstanding the provisions of regulation 15.1, the Executive Director~~, in consultation with the Administrator,~~ may issue guidelines regarding the procurement of

equipment, supplies, and services in accordance with principles approved by the General Assembly and in particular the Consensus of 1970, resolution 2688 (XXV), annex, paragraphs 41, 42 and 44, and resolution 3405 (XXX), annex. Such guidelines shall be drawn up in consultation with the executing agencies **or, under the harmonized operational modalities, implementing partners,** which are organizations of the United Nations system, and submitted to the Members of the Executive Board in accordance with Regulation 14.1.

ARTICLE XV – EXECUTING AGENCIES AND IMPLEMENTING PARTNERS

Regulation 15.1: The administration by executing agencies **or, under the harmonized operational modalities, implementing partners,** of funds obtained from UNFPA shall be carried out under their respective financial regulations, rules, practices and procedures to the extent that they are appropriate. Where the financial governances of an executing agency, **or under the harmonized operational modalities, implementing partner,** do not provide the required guidance, those of UNFPA shall apply.

Regulation 15.2: Each executing agency **or, under the harmonized operational modalities, implementing partner,** shall maintain such accounts and records as are necessary to enable it to report on the financial status of funds obtained from UNFPA, including in particular the balance of recorded allocations, expenditures and commitments.

Regulation 15.3: To ensure the uniformity and usability of data required for UNFPA management purposes, the Executive Director is authorized, after consultation with the executing agencies **or, under the harmonized operational modalities, implementing partners,** to specify the basis, content and periodicity of reports on funds obtained from UNFPA which are to be submitted by executing agencies **or, under the harmonized operational modalities, implementing partners.**

~~Regulation 15.4: Notwithstanding the provisions of Regulation 15.1, the Executive Director, in consultation with the Administrator, may issue guidelines regarding the procurement of equipment, supplies, and services in accordance with principles approved by the General Assembly and in particular the Consensus of 1970, resolution 2688 (XXV), annex, paragraphs 41, 42 and 44, and resolution 3405 (XXX), annex. Such guidelines shall be drawn up in consultation with the executing agencies which are organizations of the United Nations system, and submitted to the Members of the Executive Board in accordance with Regulation 14.1.~~ **(modified and moved, now regulation 14.12)**

ARTICLE XVI - THE ACCOUNTS

Regulation 16.1: The Executive Director shall submit ~~accounts~~ **financial statements** biennially in respect of the UNFPA Account and in respect of all other funds administered by UNFPA, **in accordance with United Nations System Accounting Standards,** showing:

(a) the income and expenditures;
(b) the assets and liabilities, **reserves and resource balances;**
(c) **the statement of cash flows;**
(d) ~~the status of allocations for programme activities and the amounts charged against those allocations~~ **the financial implementation of programme activities;**
(e) the status of appropriations approved by the Executive Board for the biennial support budget and the amounts charged against those appropriations.

The Executive Director shall also give such other information as may be appropriate to indicate the current financial position and shall maintain such accounts and records as are necessary to report to the Executive Board and the General Assembly on the financial status of funds administered by UNFPA.

Regulation 16.2: The accounts shall be presented in United States dollars. Accounting records may, however, be kept in such currency or currencies as the Executive Director ~~in consultation with the Administrator~~ may deem necessary.

CHAPTER I – EXTERNAL AUDIT
ARTICLE XVII - EXTERNAL AUDIT

Regulation 17.1: The External Audit provisions of Article ~~XII~~ **VII** of the United Nations Financial Regulations have been annexed for information to these Regulations and shall, mutatis mutandis, apply to UNFPA, except that:

(a) the reports of the Board of Auditors, together with the financial statements and the comments thereon of the Advisory Committee, shall also be transmitted to the Members of the Executive Board;

(b) executing agencies **or, under the harmonized operational modalities, implementing partners,** which are organizations of the United Nations system shall transmit to the Executive Director for submission to the Executive Board biennial accounts showing the status of funds allocated to them by the Executive Director for the execution of UNFPA activities. Such accounts shall bear audit certificates from the organizations' External Auditors and shall be accompanied by their reports, if any, and copies of any relevant resolutions adopted by their legislative or governing bodies;

(c) in submitting the above biennial accounts to the Executive Board, the Executive Director shall comment on the Auditors' substantive observations and on their follow-up.

Regulation 17.2: The Executive Director shall ensure that, except for organizations of the United Nations system, executing agencies **or, under the harmonized operational modalities, implementing partners,** shall require their auditors to follow, to the extent feasible, the audit principles and procedures prescribed for the United Nations with respect to funds obtained from or through UNFPA, and shall ensure that each project is audited periodically as required by the Executive Director, but at least once in its lifetime.

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Financial, budgetary and administrative matters

UNITED NATIONS POPULATION FUND

REVISION OF UNFPA FINANCIAL REGULATIONS AND RECOVERY OF INDIRECT COSTS FOR CO-FINANCING

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions (ACABQ) has considered the reports of the Executive Director of the United Nations Population Fund on the revision of UNFPA financial regulations (DP/FPA/2005/3) and the recovery of indirect costs for co-financing (DP/FPA/2005/5). During its consideration of the reports, the ACABQ met with the Deputy Executive Director (Management) and her colleagues, who provided additional information.

Revision of UNFPA financial regulations (DP/FPA/2005/3)

2. As indicated in the first paragraph of the report of the Executive Director, revisions to the existing regulations as well as proposed new regulations are proposed for the approval of the Executive Board. The Committee welcomes the presentation, which facilitates identification of the revisions and additions to the text. The Committee was provided as well with a matrix of all proposed changes outlining new or revised text, with justification for the changes.

3. The Committee notes that most of the revisions result from the introduction of the PeopleSoft financial system (Atlas) in January 2004, and reflect the introduction of the multi-year funding framework (MYFF) in 1999, which replaced the previous work plan. The revisions also reflect United Nations simplification and harmonization initiatives. As indicated in paragraph 2, the revisions were approved by the Office of Legal Affairs of the United Nations.

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4. The Atlas-induced changes include the replacement of the former "certifying" function by the "committing" function, which establishes the approval to spend against a budget source; the replacement of the former "approving" function by the "verifying" function, which ensures proper controls are in place before disbursing the funds; and the replacement of the "allocation" concept by the "budget" concept, which is used to enable and control expenditures, as summarized in paragraphs 3-5 of the report of the Executive Director.

5. Previous terminology referring to the work plan in the regulations is replaced by "MYFF", in view of the introduction of the multi-year funding framework mentioned above. Moreover, now that formal authority has been delegated to UNFPA on managerial oversight and financial and personnel services, references to the UNDP Administrator have been removed in the text. The Committee further notes that under the current regulations, all entities spending money in support of UNFPA activities are defined as "executing agencies". However, under the United Nations Development Assistance Framework and the country programme action plan, the host government and/or UNFPA is now the "executing agency" and the old concept of executing agency or individual partner organization implementing the activity is therefore replaced by "implementing partner" (paragraphs 6-7 of the report). The Committee also notes that in an effort to further harmonize and simplify, UNFPA indirect costs, currently segregated into administrative and operational support costs (AOS) and managerial and support service costs (MSS), will now be labelled "indirect costs" in the regulations.

6. UNFPA is also expanding the definition of "fully funded" contributions in the regulations in order to allow implementation of a project or activity based on cash received or, if needed, a written pledge or signed agreement (paragraph 8 of the report). This will allow UNFPA to programme expenditures up to the 100 per cent level in well-defined cases in which the expectation is to receive 90 per cent cash prior to project completion. The Committee was assured that internal guidelines would be issued to minimize risk.

7. The Advisory Committee recommends that the Executive Board approve the revisions to existing regulations and the new regulations proposed, as contained in the report of the Executive Director (DP/FPA/2005/3).

Recovery of indirect costs for co-financing (DP/FPA/2005/5)

8. UNFPA provides managerial and substantive support to activities financed from co-financing resources, which entail additional managerial and administrative support from UNFPA, regardless of the executing/implementing agency. The Advisory Committee recalls that the issue of cost recovery policy of indirect costs was discussed in 1998 and 2000, and that the Executive Board approved the current rate structure in its decisions 98/22 and 2000/6.

9. The current policy for recovery of indirect costs is as follows:

(a) Trust fund contributions, regardless of implementing partner, are levied a 5 per cent recovery for MSS;

(b) Cost sharing contributions implemented by UNFPA are subject to a 5 per cent recovery of AOS costs;
(c) Trust fund contributions implemented by UNFPA are subject to an AOS of 7.5 per cent;
(d) Government execution is subject to an AOS of 5 per cent payable to UNFPA for support;
(e) Partner organizations implementing UNFPA activities can cover their indirect costs up to 12 per cent in the case of non-governmental organizations (NGOs) and up to 7.5 per cent in the case of United Nations agencies.

10. The Committee notes that the basis for the review includes the recommendation of the Joint Inspection Unit (JIU) for all organizations of the United Nations system to review their indirect cost rates in order to harmonize whenever possible (see paragraphs 12-14); the recommendation of the Advisory Committee for a review of the UNFPA cost-recovery methodologies to ensure that no "subsidization" takes place between core and co-financing funds; and the fact that, as part of the simplification and harmonization initiatives under way in the United Nations system, other agencies have reviewed and obtained approval to revise their cost-recovery policies. The Committee was further informed that both donors and country office staff have advised that the system is complicated and difficult to understand, and that as a result of this complexity, donors sometimes request waivers which, when granted, make it difficult to argue that there is no subsidization of restricted contributions by core funds – thus the proposal to simplify the calculation, as indicated in paragraph 8 of the report of the Executive Director.

11. The methodology for arriving at the formulation of the policy on recovery of indirect costs is based on a model suggested by the JIU and used by some other agencies to estimate actual indirect costs as a percentage of expenditures from co-financing (see paragraphs 15-16 of the report of the Executive Director). The Committee notes that, as a first step, the level of fixed indirect costs, which do not increase with the volume of co-financing activity, was determined within the biennial support budget. Variable costs, which are what remains after fixed indirect costs are deducted, were then apportioned based on the respective sizes of contributions in the areas of co-financing, regular resources and procurement services. Part II of the annex to the report of the Executive Director provides the UNFPA structure of fixed and variable costs. Using that model, and based on the calculation of actual recovery rates for the last two bienniums (8.1 per cent for 2000-2001, and 6.5 per cent for 2002-2003), the Executive Director is therefore proposing a unified rate of 7 per cent to be charged on all co-financed activities. Moreover, the Executive Director is of the opinion that the goal of no cross subsidization of co-financing can be attained through the application of a single rate.

12. The Committee notes that in reviewing the cost-recovery rates, UNFPA also reviewed the rates for the reimbursement of costs related to third party procurement services, currently calculated at 5 per cent of the value of the goods procured, and confirmed its appropriateness. The Executive Director is thus proposing to maintain it. The rates determining the level of reimbursement for indirect costs that implementing partners may charge, of up to 12 per cent for NGOs and 7.5 per cent for United Nations agencies, are also proposed to be retained.

13. Based on the above, the Committee agrees that the rate of 7 per cent, proposed to be the one rate to be used to recover indirect costs for co-financed activities, is reasonable. The Committee also agrees that the Executive Director should be allowed to keep the indirect cost-recovery rate under review and make proposals for amendments to avoid cross-subsidization, if necessary.